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TREASURY FOR OASIA - ABIGAIL DEMOPULOS
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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [JO](#)
SUBJECT: JORDANIANS FEELING UPBEAT, FOR A CHANGE

Classified By: CLASSIFIED BY AMBASSADOR EDWARD W. GNEHM. REASONS 1.5 (B) AND (D).

1. (C) Summary. Jordan is currently on a high: the war in Iraq is over, parliamentary elections succeeded, the World Economic Forum was a shot in the arm, there is movement on the roadmap, the stock market is up, foreign debt is down, and Jordan's credit rating was just upgraded. The private sector is looking for new opportunities in Iraq and to the west of the Jordan River and new foreign investment seems to be coming in from the Gulf. This is a welcome mood swing, but setbacks in the peace process and instability in Iraq could reverse the swing. Jordan will need continued encouragement to move forward with reforms as well as continued financial support to help spread economic benefits more broadly in the society. End Summary.

Feeling Good About Ourselves

2. (C) Having weathered the war with Iraq with minimal economic fallout (thanks to U.S. assistance), held parliamentary elections, and received an international boost from the President's visit to Aqaba and the World Economic Forum (WEF) meetings at the Dead Sea, Jordanians are feeling good about themselves. Sourness no doubt remains among "intellectuals," journalists, and old guard politicians, but the overall mood of government and the private sector contacts these days is one of optimism and even enthusiasm about the future.

And Even about the United States

3. (C) As Israel and the Palestinians take first steps on the road to peace, the good feelings are even spilling over into the way Jordanians see the United States. Attendance at our Fourth of July reception was unprecedented in recent memory. The heavyweight U.S. delegation to the WEF was noticed and appreciated by Jordanians, who were buoyed by Secretary Powell's, Ambassador Zoellick's and other officials

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repeated references to Jordan as the region's model for good policy.

Private/Public Sectors Buoyant

4. (C) Rather than the economic and political catastrophe so many feared would result from the severing of Jordan's "special" economic relationship with Iraq, there is a boomtown atmosphere in the private economy. Iraqis with cold cash are buying up everything from cars, to clothing and consumer goods, to manufactured products. Lines at the Iraqi border are miles long. Brimming with schemes to get involved in Iraqi reconstruction, businesspeople are again looking west to participate in rebuilding the shattered West Bank economy. At the same time, there appears to be a new interest by Gulf investors in Jordan. The leading mobile phone company was purchased by a Kuwaiti counterpart earlier in the year, and Saudi investors are moving into real estate and retail development in Aqaba, Amman, and the Dead Sea.

5. (C) A similar loosening is true in politics. Parliamentary elections were conducted with relative ease and the outcome maintained the traditional balance as tribal groupings retained the upper hand over Palestinians and Islamists. Increasingly, Jordanians are spontaneously approaching us to say that, in the end, the U.S. did the right thing in Iraq. The Aqaba Summit and movement on the roadmap also brought relief. The trade and water ministers noted with satisfaction that they were able to have their first public meetings with Israeli counterparts in years during the WEF. After some hesitant contacts with the Embassy during the war, other ministers are now competing among themselves to be the first to go to meet CPA in Baghdad.

Real Economy Scarred by the War, but Looking up

16. (C) The limited numbers available bear out the positive mood. With the economy preparing for war, real GDP in the first quarter (not seasonally adjusted) declined 13% compared to the previous quarter, which was itself down 2% over the third quarter. But compared to the first quarter of 2002, GDP actually grew by 2.8%. Besides seasonal drops in construction and agriculture, manufacturing, electricity and water, and wholesale and retail trade saw the sharpest declines in activity in the first three months. There also appears to have been a drop in government spending following a usual end of year spurt.

17. (C) The focus, however, is on the 2.8% increase over the first quarter of 2002. Government officials and private analysts hope this performance will be sustained through the following three quarters to achieve a 3% annual growth rate. Exports and QIZ activity remain solid. January-April QIZ textile production appeared to be up over 15% according to partial results from Irbid's al-Hassan Industrial Estate. The one down note is uncertainty over the status of contracts for shipments to Iraq under the OFF and bilateral trade protocol that were interrupted or for which payment was not received due to the war. The old-guard businesses that held such contracts are putting the government under considerable political pressure to make them whole.

First Credit Upgrade in Years

18. (C) Financially, Jordan is in its best position in decades. Foreign reserves stand at \$4.4 billion (including the \$700 million transferred by the United States to cover war-related budget needs). Banks are flush and the stock market is up 32% from its pre-war low in February. In a another sign of market confidence, the finance ministry recently succeeded in issuing \$200 million in five-year JD treasury bonds at 4.25%, about 2.25% over LIBOR, the lowest spread ever. An especially important vindication for Finance Minister Marto's policies of fiscal restraint was Standard and Poor's July 3 upgrade of Jordan's long term sovereign credit rating to BB from BB-. This was the first upgrade in years and one that Marto hopes will be followed by Moody's after it completes an assessment this month.

2003: A Balanced Budget is Possible

19. (C) Fiscally, the government is also feeling comfortable. According to its recently published staff report, the IMF expects a JD 175 million deficit this year, equivalent to 2.8% of GDP. This improvement over the 5.0% realized last year is mainly thanks to extraordinary assistance from the United States, the Gulf states (in the form of free oil), and Japan that more than offset the loss of the oil subsidy from Iraq and additional spending related to the war. This outcome would reduce the external debt burden by 4 percentage points, to 73% of GDP, compared with 90% in 1999 and over 100% earlier in the decade. In fact, Finance Secretary General Abu Hammour recently told ECON/C that he thought the budget for the year could well end up in balance, adding that Jordan had no intention of requesting U.S. agreement to use the last \$200 million of the recent \$700 million budget transfer this year.

110. (C) As Prime Minister Abul Ragheb and Marto reaffirmed to Under Secretaries Larson and Taylor during the WEF, the government remains committed to the undertakings it made to the U.S. All spending will be through the previously approved budget (with "surplus" amounts going to deficit reduction rather than new projects) and Jordan will continue to implement steps to wean itself off cheap oil imports by raising consumer prices of oil products.

2004 Deficit Target Tougher, but Within Reach

111. (C) Meeting the IMF's 2004 deficit target of 3.9% of GDP (JD 289 million) will be more difficult, but still seems achievable. Reserving \$200 million of the \$700 million provided by the U.S. for the 2004 budget will be a big help, as would continuation of the concessional oil supplies from the Gulf. Abu Hammour said that so far, the Saudis have promised to continue the current arrangement only through end-September, but that he was hopeful they would agree to continue it through next year, along with Kuwait and the UAE. (A top palace official told the Ambassador the Saudis had already agreed to continue it through March 2003, but this appears to be closely held.)

12. (C) Even with this help, deficit reduction measures equivalent to 1.3% of GDP (about JD 100 million) would still need to be identified to meet the 2004 target. Abu Hammour said these will be achieved through continued price increases for petroleum products, other tax increases and some spending curtailment. He admitted that a sitting Parliament would make implementing such measures more politically complex than in the past few years. We hear that Marto will make a major outreach campaign to new deputies to educate them on budget realities and prepare the ground for the 2004 budget debate that will take place in December.

Comment: A Fragile Moment

13. (C) After years of pessimism, a mood swing is welcome. But we should welcome it as just that: lack of sustained progress on the road map and/or in stabilizing Iraq could swing the public in the opposite direction very quickly. There is also a complacency risk. Improving the investment climate so as to achieve the higher growth rates needed to reduce unemployment and poverty will remain hard work. New Parliamentarians weary of years of fiscal austerity will make this task more difficult for the King and his government. Reducing poverty and unemployment remains Jordan's most pressing economic and political challenge. Funding for the productivity enhancement projects under the Social and Economic Transformation Program (SETP) will continue to remain crucial for political stability and medium term growth. The embassy will continue to engage to maintain the positive momentum. Washington's continued focus and engagement will also be critical in the months ahead.
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